

**FILED**

**APR 10 2012**

**SECRETARY, BOARD OF  
OIL, GAS & MINING**

**BEFORE THE BOARD OF OIL, GAS AND MINING  
DEPARTMENT OF NATURAL RESOURCES  
STATE OF UTAH**

IN THE MATTER OF THE REQUEST FOR AGENCY ACTION OF KOCH EXPLORATION COMPANY, LLC FOR AN ORDER MODIFYING UTAH ADMIN. CODE R649-3-2, R6493-10, AND R649-3-11(1) AND (2) TO PROVIDE FOR THE DRILLING OF WELLS TO ACHIEVE THE EQUIVALENT OF AN APPROXIMATE 10 ACRE WELL DENSITY PATTERN FOR THE PRODUCTION OF GAS AND ASSOCIATED OIL AND OTHER HYDROCARBONS FROM THE WASATCH FORMATION AND MESAVERDE GROUP UPON PORTIONS OF SECTIONS 28, 34, AND 35, AND SUSPENDING APPLICATION OF UTAH ADMIN. CODE R649-3-2, R6493-10, AND R649-3-11(1) AND (2) INsofar AS THEY PERTAIN TO LANDS WITHIN THE NORTH ALGER FEDERAL EXPLORATORY UNIT COVERING SECTION 27 AND PORTIONS OF SECTIONS 33 AND 34, ALL LOCATED IN TOWNSHIP 10 SOUTH, RANGE 19 EAST, SLM, UINTAH COUNTY, UTAH.

**REQUEST FOR AGENCY ACTION**

**Docket No.** 2012-019

**Cause No.** 259-02

KOCH EXPLORATION COMPANY, LLC ("Petitioner"), by and through its attorneys, Holland & Hart LLP, pursuant to Utah Code Ann. §§ 40-6-5(3)(b) and Utah Admin. Code R649-2-1 through R649-2-3, hereby requests the Utah Board of Oil, Gas and Mining (the "Board") to enter an order modifying Utah Admin. Code R649-3-2, R649-3-10, and R649-3-11(1) and (2) to allow the drilling of additional wells to achieve the equivalent of an approximate 10 acre well density pattern for the production of gas

and associated oil and hydrocarbons from the Wasatch Formation and Mesaverde Group, underlying the following lands:

Township 10 South, Range 19 East, SLM

Section 28:  $W\frac{1}{2}$ ,  $NE\frac{1}{4}$ ,  $W\frac{1}{2}$   $SE\frac{1}{4}$

Section 34:  $S\frac{1}{2}$   $SW\frac{1}{4}$ ,  $E\frac{1}{2}$

Section 35: All

(containing 1,600 acres)

(the “Non-Unit Lands”); and suspending Utah Admin. Code R649-3-2, R649-3-10 and R649-3-11(1) and (2) as they pertain to the lands which are located within the North Alger Federal Exploratory Unit, covering the following lands:

Township 10 South, Range 19 East, SLM

Section 27: All

Section 28:  $E\frac{1}{2}$   $SE\frac{1}{4}$

Section 33:  $E\frac{1}{2}$   $NE\frac{1}{4}$

Section 34:  $NW\frac{1}{4}$ ,  $N\frac{1}{2}$   $SW\frac{1}{4}$

(containing 1,040.00 acres)

(the “North Alger Unit”)(collectively the Non-Unit Lands and the North Alger Unit are called the “Subject Lands”).

In support of its Request for Agency Action ("Request"), Petitioner respectfully states and represents:

1. Petitioner is a Delaware limited liability company in good standing having its principal place of business in Englewood, Colorado. Petitioner is qualified to do business in Utah and is fully and appropriately bonded with all Federal and State of Utah agencies.

2. The Board has jurisdiction of the parties and of the subject matter of this Request pursuant to Utah Code Ann. § 40-6-1, *et seq.*

3. The Subject Lands are generally located in the area known as the Natural Buttes Field. Oil and gas ownership in the Subject Lands consists entirely of federal lands. All of the oil and gas interest underlying the Subject Lands is leased. Petitioner owns 100% of the working interest in Sections 27, 28, the E $\frac{1}{2}$ NE $\frac{1}{4}$  of Section 33, and the W $\frac{1}{2}$  of Section 34 and 50% of the working interest in The E $\frac{1}{2}$  of Section 34 and all of Section 35.

4. The Wasatch Formation and Mesaverde Group are defined for purpose of this request as:

The top of the Wasatch formation is defined as the stratigraphic equivalent of 4,451 feet as shown on the electric log of the Old Squaws Crossing #123-27 well located in the SW $\frac{1}{4}$ NE $\frac{1}{4}$  of Section 27, Township 10 South, Range 19 East SLM, and the base of the Mesaverde Group is defined as the stratigraphic equivalent of 10,224 feet in said Old Squaws Crossing #123-27 well.

(the “Subject Formations”).

5. The Subject Lands are currently not subject to any spacing order of the Board. All wells drilled on the Subject Lands have been located in accordance with the Utah Division of Oil, Gas and Mining’s (“DOGM”) and the Board’s general rules, including the well location and siting rules contained in Utah Admin. Code R649-3-2. Under this rule, each well is to be located within a 400-foot square “window” surrounding the center of each governmental quarter-quarter section, or a substantially equivalent lot or tract or combination of lots or tracts, and no wells may be drilled less than 920 feet from any other well capable of producing from the same pool. This location pattern permits one well per quarter-quarter section or sixteen wells per section, the equivalent of 40 acre well spacing.

6. Petitioner is the operator of multiple gas wells within the Subject Lands. The geologic and engineering data obtained from the wells operated by Petitioner and others and producing gas from the Wasatch Formation and Mesaverde Group in surrounding areas has shown that:

(a) The sand bodies containing recoverable hydrocarbons are numerous, small and discontinuous. As demonstrated in the evidence presented in the matters described in Paragraph 13 below, wells drilled even as close as 505 feet apart do not intersect all of the same sand bodies and therefore reflect great lateral

variability in the productive sandstones of the Subject Formations. Surface outcrop studies in the general area performed on behalf of other operators indicate that the average apparent width of the sand bodies is 637 feet. Theoretically, wells drilled on a 10 acre density pattern would be located 660 feet apart;

(b) The sand bodies contain complex internal structures, many of which are barriers to flow, and are tight with permeability in the micro-darcy range;

(c) Volumetric estimations support 10 acre well density for the Subject Formations;

(d) Without 10 acre density, additional gas reserves may be left in the ground; and

(e) Wells on a 10 acre density may be economically drilled and operated.

Petitioner therefore believes that the equivalent of an approximate 10 acre well density pattern is appropriate for the Subject Lands.

7. Petitioner is requesting modification of Utah Admin. Code R649-3-2 for the Non-Unit lands to allow an approximate 10 acre well density pattern. There are numerous orders authorizing an approximate 10 acre well density patterns for the Wasatch Formation and Mesaverde Group within the general area. Specifically, in Cause Nos. 179-14, 179-15, and 210-05 the Utah Board of Oil, Gas and Mining (the "Board")

approved modification of the existing well siting and location rules to allow a 10 acre well density pattern for production from the Wasatch Formation and Mesaverde Group.

8. Also, due to topographical constraints and in order to enable the drilling of multiple wells from a single pad, the 10 acre well density pattern may require directional drilling. This requires modification of Utah Admin. Code R649-3-10 and R649-3-11(1) and (2), the default rules governing directional drilling.

9. Additionally, Petitioner is requesting suspension of Utah Admin. Code R649-3-2 for the North Alger Unit, previously called the Old Squaw Crossing II Unit (the "Unit"). This Unit is a Federal exploratory unit that was initially approved effective on May 23, 1986, covering all depths and has contracted several times to its current size of 1,040.00 acres. The Unit is administered by the BLM and is operated by the Petitioner, Koch Exploration Company, LLC. There are no uncommitted tracts within the Unit.

10. All of the oil and gas within the North Alger Unit is owned by the United States. These lands are covered by several Federal leases in which the Petitioner owns 100% of the working interest.

11. Well siting and location within the Unit is governed by the Unit Agreement and the annual plan of development approved by the BLM. Applications for permits to drill for wells in the Unit are approved by the BLM and DOGM.

12. Wells located within the Unit are currently located on a 40 acre basis within the 400 foot square window provided under Utah Admin. Code R649-3-2. Petitioner is proposing to drill wells within the North Alger Unit on an approximate 10 acre well density pattern. This well density pattern is best accomplished through suspension of this rule.

13. The Board has approved suspension of these default rules on multiple occasions for Federal exploratory units. Specifically, in Cause No. 259-01, for the River Bend and Little Canyon Units, and Cause No. 268-01, for the Love Unit, the Utah Board of Oil, Gas and Mining (the "Board") suspended these general rules to allow development under the unit agreements and plans of development for these Federal exploratory units.

14. In addition, due to topographical constraints and in order to enable the drilling of multiple wells from a single pad, the 10 acre well density pattern may require directional drilling. For the North Alger Unit, Petitioner therefore requests suspension of Utah Admin. Code R649-3-10 and R649-3-11(1) and (2), the default rules governing directional drilling.

15. Petitioner, in order to allow the greatest flexibility for orderly development and to account for geologic conditions, as well as for the foregoing considerations, is requesting the Board to modify Utah Admin. Code R649-3-2, R649-3-10, R649-3-11(1)

and (2) to allow the drilling of wells to achieve an approximate 10 acre well spacing pattern for production of oil and gas from the Subject Formations as to the Non-Unit Lands, and to suspend Utah Admin. Code R649-3-2, R649-3-10, R649-3-11(1) and (2) as to the North Alger Unit lands; provided, however that:

(a) To ensure protection of the correlative rights of owners surrounding the Subject Lands, Petitioner agrees that no future wells will be located closer than 460 feet from any lease or the unit boundary without the approval of an exception location by DOGM or the Board in accordance with Utah Admin. Code R649-3-3;

(b) That in order to allow flexibility in well locations and density, the 920 foot inter-well offset limitation contained in Utah Admin. Code R649-3-2(1.1) be eliminated; and

(c) No well may be directionally drilled on the Subject Lands if any portion of the wellbore will be closer than 460 feet to a drilling unit or lease boundary without the approval of DOGM or the Board in accordance with Utah Admin. Code R649-3-3 and R649-3-11(1) and (2), and further that Petitioner or Operator provides to DOGM a plat or sketch showing the distance of the drilling unit boundary and target location within the Subject Formations with any application for permit to drill for a well to be directionally located.



16. Petitioner requests the Board declare that all existing wells located on the Subject Lands and producing from the Subject Formations are deemed authorized and are at lawful locations.

17. Petitioner believes that the requested order will allow for the orderly development of the Subject Lands, will prevent waste, will adequately protect the correlative rights of all affected parties and is just and reasonable.

18. Petitioner is filing, concurrent with the filing of this Request, a separate certificate of mailing which lists all persons known to Petitioner whose legally protected interests in the Subject Lands will be affected by this Request, together with their last known addresses. Said list contains the names and addresses of known mineral owners (lessors), overriding royalty or other production interest owners, working interest owners (lessees) and active producers and operators. There are no respondents or adverse parties known at this time to Petitioner.

**WHEREFORE**, Petitioner respectfully requests that:

1. This Request be set for hearing at the regularly scheduled meeting of the Board on May 23, 2012.

2. That due notice of such hearing be given as provided by law.

3. That following said hearing, the Board enter an order:

(a) Modifying Utah Admin. Code R649-3-2, R649-3-10, and R649-3-11(1) and (2) to allow the drilling of additional wells to achieve the equivalent of approximately 10 acre well density pattern for the Non-Unit Lands for the production of gas and associated oil and hydrocarbons from the Wasatch Formation and Mesaverde Group and to enable the drilling of multiple wells from a single pad;

(b) Suspending Utah Admin. Code R649-3-2, R649-3-10 and R649-3-11(1) and (2) as they pertain to the lands which are located within the North Alger Unit;

(c) Provide that no future wells, including any portion of the wellbore of a directionally drilled well, shall be drilled closer than 460 feet to a lease or unit boundary on the Subject Lands without obtaining an exception location from DOGM pursuant to Utah Admin. Code R649-3-3;

(d) Making such findings and orders in connection with this Request as it deems necessary; and

(e) Providing for such other and further relief as may be just and equitable under the circumstances.

Respectfully submitted this 10<sup>th</sup> day of April, 2012.

**KOCH EXPLORATION COMPANY, LLC**

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